



*Findings from ACCA/PAB/ICAJ/ICAC
Practice Monitoring Reviews &
General Information on the progress
of the Programme*

8 December 2012

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AGENDA

1. ACCA/PAB/ICAJ/ICAC Practice Monitoring Programme
2. The audit monitoring process
3. Assessing the outcome of an audit file examination
4. Common deficiencies found in audit files
5. Action plans
6. How firms should prepare for an audit monitoring visit

ACCA/PAB/ICAJ/ICAC PRACTICE MONITORING PROGRAMME

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PAB/ICAJ MONITORING PROGRAMME

- Audit monitoring visits undertaken by ACCA on behalf of PAB
- Started in January 2012
- Schedule of firms to be visited agreed with PAB
- Selected firms notified by PAB and requiring PVQ /details of audit clients to be sent to ACCA
- Primary purpose – to verify compliance with International Standard on Quality Control No. 1 (ISQC 1) and International Standards on Auditing (ISAs)
- Firm's awareness of the PAB's draft rules on Money Laundering discussed.
- About 50 firms visited to date – firms have co-operated and visits well received

THE AUDIT MONITORING PROCESS

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THE AUDIT MONITORING PROCESS

- Arranging the visit:
 - Firm contacted by telephone
 - Information in PVQ and audit clients discussed
 - Date of visit agreed and confirmed in writing
- Undertaking the visit
 - Opening meeting - background /quality controls procedures
 - Examination of audit files
 - Closing meeting - discuss and agree the findings and overall outcome and guidance on any improvements given
- Post-visit procedures
 - Report on visiting findings, conclusion and guidance drafted
 - Internal quality control of review of report/visit papers
 - Report / action plan template sent to the firm
 - Firm's response including action plan received and reviewed
 - Report and firm's response /action plan sent to PAB

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION

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ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION

- Perfect audit files do not exist
- Number of deficiencies does not necessarily determine whether audit is unsatisfactory
- Key concept is “reasonable assurance” that financial statements are free from **material** misstatement
- The “test” is whether there is a significant risk that the financial statements could contain an undetected material misstatement as a result of the deficiencies found in the audit work
- An audit file may only have **one** deficiency and be considered unsatisfactory if significant in a key area

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 1

- Inventories are material
- No continuous inventory system and auditor does not attend client's physical inventory count
- No alternative procedures to obtain reasonable assurance that stock count was undertaken reliably and results were recorded accurately
- No other serious deficiencies noted on file and clean report issued
- Failure to verify inventory could mean a material misstatement remains undetected
- Conclusion: Unsatisfactory audit

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 2

- Inventories are significantly material
- Auditor attends physical inventory count but is unable to adequately verify quantities
- Audit report qualified “except for” valuation of stock and related cost of sales
- No consideration of whether the limitation on scope is so material and pervasive that the auditor is unable to express an opinion (ISA 701)
- Conclusion: Unsatisfactory audit

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 3

- Audit client was a large manufacturing company
- Value of plant and machinery represented 25% of the net assets of the company
- Large proportion of the value of plant and machinery related to a few items of machinery
- Auditor did not verify the existence of any of the assets by physical inspection
- No other serious deficiencies noted on the file

Continued

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 3 (CONTINUED)

- Outcome may be considered unsatisfactory

However:

- Auditor may have considered that the continuance of the manufacturing company's trade provided adequate indication of existence of key pieces of machinery. If auditor has recorded these alternative procedures, including its going concern review outcome may be considered satisfactory.

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 4

- Indicators of financial difficulty and cash flow problems
- Auditing standard on going concern (ISA 570) not followed
- Conclusion: Unsatisfactory audit

ASSESSING THE OUTCOME OF AN AUDIT FILE EXAMINATION – EXAMPLE 5

- No indication of financial difficulty and surplus cash generated
- Auditing standard on going concern (ISA 570) not followed
- Conclusion: Deficiency, but not sufficiently serious to render outcome unsatisfactory

COMMON DEFICIENCIES FOUND IN AUDIT FILES

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COMMON DEFICIENCIES FOUND IN AUDIT FILES

Planning

- Documenting the understanding of business
- No risk assessment - Identifying risks from:
 - understanding of the business
 - compliance with laws and regulations
 - consideration of fraud and error
 - preliminary analytical review
- Key audit areas based on risk assessment / audit approach not identified
- Design of audit procedures - audit programme not used or suitably tailored
- Overall and performance materiality not calculated

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Documentation

- No audit work recorded
- Basis of sample size and selection not recorded
- Insufficient record of nature and extent of audit work – source of audit evidence and samples tested not recorded
- No summary and evaluation of the results of audit tests to support the conclusion

Control and review

- No evidence of engagement partner supervision and review

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Deficiencies in audit evidence

- Existence of plant and equipment not verified
- Ownership of property and motor vehicles not verified
- Valuation of property (shown at valuation) not verified
- Inventory
 - Physical count not attended
 - No tests on cost and net realisable value
 - No consideration of stock obsolescence
- Recoverability of receivables not tested
- No bank letter / bank reconciliations not verified

COMMON DEFICIENCIES FOUND IN AUDIT FILES (CONTINUED)

Deficiencies in audit evidence (continued)

- Completeness of payables not tested
- Validity and recoverability of related party balances not tested
- Completeness of income for understatement not tested
- No analytical review
- No subsequent events review
- No going concern review
- No review of financial statements for adequate disclosures
- No management representation letter

ACTION PLANS

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ACTION PLANS

- Firms required to provide detailed action plans to address the deficiencies at monitoring visits
- Appropriate action plan template together with written instructions enclosed when monitoring visit report issued to the firm
- Guidance on how to complete the template also given at the monitoring visit
- Submitted action plans reviewed to ensure provide a reasonable basis for rectifying the deficiencies
- Copy of the action plan enclosed when the report is sent to PAB
- Firms are expected to implement the action plan and ensure that a satisfactory outcome is achieved at the next meeting

HOW FIRMS SHOULD PREPARE FOR AN AUDIT MONITORING VISIT

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PREPARING FOR A MONITORING VISIT

- Key – firm to ensure that it complies with ISAs
- Key – firm to establish appropriate policies and procedures and document them (ISQC 1)
- Effective planning leading to use of an **effective audit programme**
- Record all audit work and reasoning in detail to support the conclusions
- Ensure all documents are ready before the visit
- Get the most out of the visit by listening carefully to what is said
- **Don't panic! – No regulatory action on non-compliance with auditing standards at first visit**

ANY QUESTIONS?

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THANK YOU

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